



Memorandum

TO: CITY COUNCIL/REDEVELOPMENT AGENCY BOARD **FROM:** Mayor Chuck Reed

SUBJECT: Mayor's Budget Message:
FY 2007-2008 Redevelopment
Agency Capital Budget

DATE: September 14, 2007

Approved:

Chuck Reed

Date:

9/14/07

RECOMMENDATION

That the Redevelopment Agency Board approve the proposed Redevelopment Agency Capital Improvement Program and the 2007-2008 Capital/Program Budget incorporating the specific recommendations as amended by this memorandum.

INTRODUCTION

I present my Fiscal Year 2007-2008 Redevelopment Agency Capital Budget Message for consideration by the Redevelopment Agency Board. The Agency is proposing a one-year capital budget and a five-year capital improvement program. Our tax increment forecast indicates a solid increase in revenue for the next five years. The FY 2007-08 Proposed Budget projects a 13% growth in property values, for a total of \$180 million in tax increment revenue, for Redevelopment Project Areas.

This fiscal year, the Agency's Proposed Capital Budget totals \$199 million. This funding will be strategically allocated to move the Redevelopment Project Areas forward in eliminating blight by increasing jobs in San José, enhancing economic vitality, investing in public facilities and infrastructure, strengthening neighborhoods, and providing quality affordable housing. The Agency's obligation to other governmental entities, including pass-through payments and contractual obligations will also be met. Redevelopment continues to be a critical catalyst to create jobs and enhance revenues by investing in the elimination of conditions that cause physical and economic blight.

BUDGET HIGHLIGHTS

Economic vitality is the blueprint that guides the policy considerations in this budget message. The importance of a healthy, vibrant economy to San José's lifestyle and identity cannot be over emphasized. The Redevelopment Agency serves a vital function for the implementation of

economic vitality in San José. This will be done by targeting new opportunities that support our driving industries and renew our creative urban centers which will support the future fiscal health of the city and long-term sustainability.

Some of the highlights of this Budget Message that promote economic vitality are:

Enhancing Economic Vitality – Driving Industries

1. **Bioscience Pilot Manufacturing Facility:** To continue the diversification of the valley's economy and in accordance with Agency Board direction included in my June Budget Message, I recommend approval of \$200,000 for this important initiative. A consultant will assist the Agency in identifying the necessary steps to establish a manufacturing building in San José.

The Executive Director and the City Manager are also directed to pursue possible federal funding for a pilot manufacturing facility that will allow innovative bioscience companies to grow in San José so they do not have to outsource jobs.

2. **Edenvale Emerging Technologies Fund:** We must continue our efforts to position Edenvale as a bioscience and emerging technology innovation cluster. Funding in this line item is available for the redevelopment or rehabilitation of the Research and Development office and manufacturing facilities, and/or acquisition of capital equipment by established companies in the area. I recommend approval of \$1.4 million for this fund.
3. **North San José:** The Agency's commitment to North San José represents the second largest investment category in the five-year budget. A total of \$26.5 million is programmed for roads. I recommend that \$15 million of the \$26.5 million allocation be a flexible source of funds to address community needs for roads or other infrastructure and facilities that cannot be funded from other sources. (BD #2)
4. **San Jose BioCenter Expansion:** This project will address some of the expansion needs of current tenants for additional space through the completion of tenant improvements. I recommend approval of \$2.5 million in the Agency budget for this project.

Enhancing Economic Vitality – Creative Urban Centers

5. **Acquisition of Historic Bank of America Building Lobby for Downtown BART Station Portal:** The downtown Bank of America building is a City historic landmark and part of the downtown San José National Historic District. However, the building is in urgent need of a seismic retrofit and major renovations in order to preserve this significant part of San José's history. The Bank of America building lobby has also been identified as a possible main access portal to the subway BART station in downtown San José. Consistent with the visionary goals for downtown San José, as advocated by 1st ACT Silicon Valley and the Downtown Association, this is a tremendous opportunity to provide a grand gateway to downtown from the BART system. We should seek a partnership between the Redevelopment Agency, the VTA, and the building owner to

both renovate the building in a cost effective manner and create a distinctive downtown San José BART station.

As a first step, I am recommending that the Agency staff begin discussions with the owner of the historic Bank of America building with the intent of acquiring the basement and first floor of the building for the purpose of preserving the building and assisting VTA with locating the main access portal for the Downtown San José BART station.

6. **Civic Auditorium and Other Facilities:** San José is the creative center for the South Bay and the Peninsula. The proposed expenditures and the following recommendations underscore this fact. Improvements to our theatres will further serve our economic development needs and, at the same time, support the large public and private investments that already have been made there.

The Civic Auditorium has served our city well for the last 75 years. This historic venue requires major upgrades and is underutilized. A report commissioned by the City in 2005 indicated that a restored Civic Auditorium would have extraordinary appeal as a 3,000 seat, high quality, intimate concert venue that could nicely complement the HP Pavilion. In addition, restoring the Civic Auditorium reinforces our vision of the downtown as the region's entertainment center. Preserving and restoring this historic venue is critical to our ability to activate this important downtown facility with events that can serve our entire community. The current budget includes \$2.1 million for improvements to the Civic Auditorium. I recommend a modification to the Agency's budget allocating an additional \$8 million for the Civic Auditorium with \$5 million from the Convention Center Expansion line item and \$3 million from the capital reserves. The Executive Director and City Manager are further directed to find ways to increase concert opportunities and maximize use of the Civic Auditorium.

The budget also includes approximately \$2 million for improvements to the California Theatre, Montgomery Theatre and the Center for the Performing Arts. Each of these facilities has served our community well in previous years and we must continue to invest money in them to insure they remain a vibrant part of the downtown.

7. **Small Wonders:** This vision calls for a vibrant, creative downtown that encourages iconic public art, outdoor meeting spaces, street vendors, colorful signs, clean streets, and outdoor cafes. I recommend approval of the \$2.4 million in the Agency's budget to begin implementation of the work plan presented to the Community and Economic Committee on August 27, 2007. Staff should move quickly on the successful implementation of these projects to leverage additional private dollars.

Bond Debt Limit

There is still much work to be done in our efforts to eliminate blight throughout the Redevelopment Project Areas, promote economic partnerships, and retain and attract jobs. To provide context to the many unmet demands on Agency resources, the Executive Director has prepared the attached list of the most significant unfunded needs.

To continue the Agency's commitment to create jobs and expand businesses, build public facilities, develop affordable housing, and strengthen neighborhoods, the Executive Director is directed to develop a strategy to amend the Merged Redevelopment Project Area to increase the cap on the amount of bonded indebtedness that can be incurred under the plan.

OTHER INVESTMENT STRATEGIES

The Mayor's Redevelopment Agency Capital Budget Message continues the community-based budgeting process. The purpose of this community-based budgeting process was to set forth a vision, clear goals and objectives for our city given our limited resources. For this process to be successful, extensive public participation was critical. Thus, the Council structured a process to maximize opportunities for public input and neighborhood participation, which included a community survey, neighborhood association meeting, Council Priority Setting Session, and New Initiatives and Unfunded Programs Session.

The goals that came out of these sessions, and as relevant to the Redevelopment Agency, are as follows:

- Increase the numbers of jobs in San José
- Increase economic vitality

This Budget Message continues a process of focusing services on the priorities of our Board and our community. Achieving these goals will lead to the elimination of economic and physical blight in the Redevelopment Project Areas. This Message builds on a commitment to take a longer view of the Agency's fiscal situation so that we can address current and future challenges while preserving the services San José residents rely on most.

Consequently, this leaves us with the difficult task of deciding how to allocate scarce resources. This year, Board Members' budget requests totaled more than \$28 million. While it is impossible to fund every proposal in this budget, I have made an effort to ensure that funded recommendations are consistent with the Redevelopment Agency Board's and the community's priorities.

A. Create Jobs and Expand Businesses

The Agency's redevelopment projects and programs encourage the creation of new jobs and the generation of additional Tax Increment Revenues to improve the overall standard of living and prosperity of our community. In addition to the items discussed in the highlights section, I recommend the following to support the Agency's private development work program:

1. Retail Strategy:

- a. The Executive Director and the City Manager are directed to review our retail strategy and identify opportunities and resources needed to make it easier for major retailers to get through the approval process.

- b. In addition, the Executive Director and the City Manager are directed to present to the Board/City Council by the end of October action sites for retail development.
2. **New Business Permit Fees Holiday Pilot Program:** The City of San José is committed to the promotion of small businesses. These goals are served by the enhancement of the tax base through increased investment and the expansion of the local economy. The City of San José should consider an exemption of permit fees (holiday) associated with the construction and occupancy of businesses. The Executive Director and City Manager are directed to bring to the Board/City Council for consideration a Pilot Permit "Holiday" Program for small businesses located in RDA project areas with Agency assistance for permit fees.
3. **Small Business Expansion Pilot Program:** By the end of December 2007, the Executive Director and the City Manager are directed to present to the Board for action a Pilot Permit Program for downtown and neighborhood business districts that will allow small businesses to expand by the Agency covering the costs of city fees for sidewalk cafes and signs.
4. **Downtown Parking:**
 - a. Limited funds exist to develop additional parking supply. The Executive Director and the City Manager are directed to revisit the downtown on-street parking strategy to increase the number of on-street parking spaces. The Executive Director and the City Manager should also consider opportunities to add meters to new on-street parking spaces.
 - b. The sale of the Third Street Garage to private investors, who would be required to retain the facility open to the public, could generate additional revenue to develop parking in locations where it is needed or will be needed in the future. The Executive Director and the City Manager are directed to explore the possibility of selling the Third Street Garage and report back to the City Council by December 2007.
 - c. Advanced parking meter technologies can lower a city's operating costs, reduce staffing needs and increase ticketing accuracy, resulting in fewer challenges to parking fines. The Executive Director and City Manager are directed to evaluate new parking meter technology and report back to the City Council/Agency Board.
5. **Guardrail for Taylor Street:** The successful San Jose Market Center has increased pedestrian traffic in the surrounding area. Currently, a guard rail exists on the north side of the Taylor Street underpass, but one is missing on the south side of the street. To ensure that San José is a walkable community, a new guardrail is needed for the south side of Taylor Street between Coleman and Stockton Avenues. The Executive Director is directed to allocate one-time funding of \$50,000 for this project to come from the Neighborhood Business District reserve. (BD #6)

B. Build Public Facilities

Another core service area for the Agency is to initiate and facilitate public facilities and spaces. Last year, the Agency completed construction on multiple projects, including upgrades to the Tech Museum of Innovation and the Fallon House, and assisted in the planning and development of numerous others. To further focus the Agency's efforts in building public facilities, I recommend the following:

1. **Implement the Green Building Strategy:** The City has developed a rigorous Green Building Strategy. The Executive Director is also directed to educate and work collaboratively with private developers towards building according to the City's Green Building Strategy.
2. **Convention Center:** The Convention Center Expansion is a priority. Sufficient funding exists in the current budget for planning. The Executive Director and the City Manager, working with the Convention Center Expansion Team and the Convention and Visitors Bureau, are directed to determine and recommend to the Board/City Council for action the scope and funding mechanisms to expand and modernize the convention center to be discussed at a November 13 Study Session.
3. **Fire Station 2/Bond Contingency Fund:** This project is in the Alum Rock Neighborhood Business District area. According to the City Attorney's Office, redevelopment law requires that the construction of new publicly owned buildings must be specified in the Redevelopment Plan. Since the Redevelopment Plan for the Alum Rock Redevelopment Area does not provide for the construction of a new Fire Station, redevelopment funds cannot be used for this purpose unless the plan is amended. The Executive Director is directed to amend the Redevelopment plan to provide for the various improvement options to the fire station. In addition, \$1.4 million from the Story/King reserve (P-1 parcel) should be set aside for the Fire Station 2 project pending the Plan amendment. (BD #9)

C. Strong Neighborhoods and Affordable Housing

Neighborhoods continue to be a high priority for San José, both through the Strong Neighborhoods Initiative and our overall commitment to coordinate effective neighborhood services in partnership with our residents.

1. **Anti-Graffiti and Anti-Litter:** A core service of the Agency is to eliminate blight. All residents of San José should be able to walk in neighborhoods that are clean and free of litter and graffiti. Cleaning up graffiti and litter is not enough. The Executive Director and City Manager are directed to explore opportunities to build partnerships to continue our anti-litter and anti-graffiti efforts. The Executive Director and City Manager are to report back to the Board with a list of options to strengthen this program.

We also must educate our community on the resources available to them so they can help us to combat graffiti. The Executive Director and City Manager are directed to have SNI and Neighborhood Advisory Committee (NAC) team members, along with Anti-Graffiti staff, promote use of the Anti-Graffiti hotline and present information on our programs to neighborhood groups.

2. **Strong Neighborhoods Initiative (SNI):** The Executive Director and the City Manager are directed to coordinate on the following:
 - a. Continue efforts in the Strong Neighborhoods Initiative areas and Neighborhood Business Districts to enhance neighborhoods.
 - b. Continue attracting private investment to enhance the Strong Neighborhoods program.
 - c. Have SNI and Neighborhood Advisory Committee (NAC) team members strengthen their partnership with the Mayor's Gang Prevention Task Force (MGPTF). The MGPTF is very actively working in SNI areas to combat gangs and has valuable resources to offer the community.
 - d. Have SNI and Neighborhood Advisory Committee (NAC) team members promote trainings and online resources of the San José Police Department to prevent auto thefts and home burglaries. Preventing these crimes is critical in keeping San José one of the Safest Big Cities.
3. **Edenvale/Great Oaks Community Facility Project:** Councilmember Williams has proposed moving \$10 million from the allocation for the Blossom Hill/Highway 101 Interchange to the Edenvale/Great Oaks Community Facility Project. The Executive Director and the City Manager are directed to find alternative funding sources for the Blossom Hill/Highway 101 Interchange. If funds are identified for the Blossom Hill/Highway 101 Interchange, then the allocation can be transferred to the Edenvale/Great Oaks Community Facility Project. An additional \$500,000 is expected to be added to the Calpine Fund this fiscal year. Pending receipt of funds from Calpine, I recommend these funds be designated to this project. In addition, the Executive Director and City Manager are directed to coordinate with Councilmember Williams on additional funding sources for this project and to pursue possible state funding for them. (BD #3)
4. **McLaughlin Neighborhood Park:** The Executive Director was directed to hold unanticipated revenues from the Story/King projects in reserve until the Redevelopment Agency had a discussion on Unfunded Needs and Priorities. This sale of Agency owned property will generate \$1.6 million (Imwalle parcel sale) that the Executive Director is to use for land acquisition to develop a McLaughlin Neighborhood Park. An additional \$900,000 is to be transferred to this project from the SNI reserve. (BD #4)

5. **Child Care Development Fund:** The Executive Director is directed to reallocate \$400,000 from Cirque du Soleil funding to this fund to increase the number and quality of available child care facilities in San José and to sustain our long-term commitment to help our youngest residents become ready to learn. The Agency is directed to bring regular reports on the status of this fund to the Neighborhood Services and Education Committee. (BD #5)
6. **Historic Pillar Project for the Alameda:** The residents of the Shasta Hanchett community have sought to restore historic pillars for their neighborhood. These pillars serve as important gateways for the neighborhood. An engineering survey is required to move forward with constructing historic pillars. The Executive Director is directed to allocate one-time funding of \$50,000 for this project to come from the Neighborhood Business District reserves. (BD #7)
7. **Pat Dando/Hoffman-Via Monte Community Center:** The Hoffman/Via Monte Neighborhood has identified finding a permanent center as a number one priority. The current Hoffman/Via Monte Center is located in a shopping center. I support adding an additional \$500,000 from the SNI reserve to the \$1 million included in the proposed budget to assist with this effort. (BD #8)
8. **West San José Community Center:** There is not enough adequate space at this center to hold a meeting of more than 25 people in the facility. These improvements were not included in the original renovation due to funding issues. I recommend allocating \$300,000 from SNI the reserve to create additional meeting space in the facility. (BD #10)
9. **Starbird Sports Field Renovation Project:** This project was identified as one of the NAC's top-ten priorities. Improvements to the sports field will provide enhanced recreational opportunities in the most park-deficient district in the City. I recommend allocating \$900,000 from the SNI reserve to this project. (BD #11)
10. **Santa Clara County Blue Ribbon Task Force on Homelessness:** A Blue Ribbon Task Force on Homelessness has been convened and is co-chaired by Supervisor Don Gage and myself. The Task Force looks at several issues including funding, outreach and services and raising awareness of homelessness. The Executive Director and the City Manager are directed to explore partnerships and ways to support the Task Force.

GENERAL

1. **Agency Budget Calendar:** Direct the Executive Director to develop a budget calendar in the fall. Creation of the calendar would include coordination with the Mayor's and City Manager's Budget Offices.
2. **Budget Addendum Process:** Direct the Executive Director to coordinate with the Mayor's Budget Office to develop a procedure similar to the Manager's Budget

Addendum that allows for budget corrections and supplemental information to be included in the budget process.

3. **Performance Measures:** The Executive Director is directed to work with the Community and Economic Development Committee to identify key performance measures and regularly report to the committee.

CONCLUSION

Regardless of the economic challenges of the last several years, the Redevelopment Agency has demonstrated the ability to balance reduced resources with the need to drive economic development, build affordable housing, and support neighborhoods that continue to struggle with blighted conditions.

We should be proud of our many accomplishments over the past few years to make San José a great place to live, work, and raise a family. San José is a community that our residents are proud to call home. Despite the current economic challenges facing the region, state, and nation, I am confident we will continue to find solutions to achieve our community's goals and provide the quality services that our residents deserve.

I want to commend Redevelopment Agency staff for the work they do each year to prepare the Council/Agency Board for this budget process.

COORDINATION

This memo was coordinated with the Executive Director, City Manager, and City Attorney/General Counsel.

Attachment A
UNFUNDED PROJECTS

| | | |
|----|---|-----------------------|
| 1 | Convention Center Expansion | \$125,000,000 |
| 2 | Autumn Parkway/Coleman Corridor | 35,000,000 |
| 3 | Vision North San José Implementation Fund | 30,000,000 |
| 4 | Biotech Pilot Manufacturing Phase 1 Plant | 25,000,000 |
| 5 | Façade Improvement Program - Downtown | 15,000,000 |
| 6 | NBD - Façade Improvements | 15,000,000 |
| 7 | Theatre Improvements | 12,000,000 |
| 8 | Guadalupe River Park Expansion | 11,400,000 |
| 9 | Permanent Major Outdoor Events Site | 10,000,000 |
| 10 | Downtown Streetscapes | 7,800,000 |
| 11 | Streetscape Improvements - St. John Street (from 5th Street to Arena Green) | 6,705,000 |
| 12 | Monterey Corridor - Route 87 Access/infrastructure Improvement | 5,000,000 |
| 13 | San Carlos Improvements - Fourth Street to Market Street | 4,000,000 |
| 14 | Museum of Art Expansion | 3,000,000 |
| 15 | ETDC Permanent Facility | 3,000,000 |
| 16 | Downtown Directional Signage | 2,800,000 |
| 17 | Civic Auditorium Expansion Phase II | 2,600,000 |
| 18 | Children's Discovery Museum | 2,175,000 |
| 19 | Child Care Development Fund | 1,000,000 |
| 20 | Japantown - Public Improvement | 1,000,000 |
| 21 | 4th Street Garage Marketing and Landlord Improvements | 900,000 |
| 22 | Tech Museum of Innovation | 300,000 |
| | | \$318,680,000 |
| 23 | SNI - Neighborhood Reserve | \$26,000,000 |
| 24 | SNI - Edenvale/Great Oaks | 10,000,000 |
| 25 | SNI - Hoffman/Via Monte | 5,000,000 |
| 26 | SNI - Winchester | 4,526,000 |
| 27 | SNI - Housing Rehabilitation Program | 3,000,000 |
| 28 | SNI - Matching Grant | 2,500,000 |
| 29 | SNI - K. O. N. A. | 1,505,000 |
| 30 | SNI - Five Wounds/Roosevelt Park Community Facility | 1,500,000 |
| 31 | SNI - Washington | 1,430,000 |
| 32 | SNI - Spartan/Keyes | 1,258,000 |
| 33 | SNI - Greater Gardner | 1,180,000 |
| 34 | SNI - Gateway East | 969,000 |
| 35 | SNI - Outreach & Training | 925,000 |
| 36 | SNI - Tully/Senter | 610,000 |
| 37 | SNI - Burbank/Del Monte | 605,000 |
| 38 | SNI - East Valley/680 Communities | 500,000 |
| 39 | SNI - Five Wounds/Brookwood Terrace | 425,000 |
| 40 | SNI - University | 400,000 |
| 41 | SNI - 13th Street | 230,000 |
| 42 | SNI - Delmas Park | 190,000 |
| | Total SNI | \$ 62,753,000 |
| | Total Unfunded Projects | \$ 381,433,000 |